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# **Fifth Extraordinary Session**

## **November 2003**

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**Arnold Schwarzenegger, Governor  
State of California**

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## **California Deficit Recovery General Obligation Bonds**

In order to refinance inherited long-term debt, the Governor proposes the sale of general obligation bonds for up to \$15 billion. The inherited debt included the projected accumulated deficit through June 30, 2004, and other deferred General Fund obligations incurred by state government prior to June 30, 2004.

In order to give the bond markets confidence that these bonds will be repaid, voter approval on the March ballot is required. And in order to give both the bond markets and the California taxpayers assurance that ongoing state spending will not be financed by long-term debt, the Governor will not sign a bond measure unless the Legislature also approves a constitutional spending limit, to be negotiated between the Governor and the Legislature, that would also be put before the voters on the March 2004 ballot.

# Tax Relief

**Addition of Funds for Car Tax Backfill.** The full-year cost of the car tax offset in 2003-04 was originally expected to be \$4.2 billion. Suspension of the offset resulted in a revenue loss to local governments due to the time lag required to implement the higher fee. The Budget agreement included a provision that this loss to local governments, which was estimated to be \$825 million, would be repaid in 2006-07. Based on actual transactions through October, and additional information from the Department of Motor Vehicles, it is estimated that the actual loss to local governments for the implementation gap will be \$1.3 billion, or \$475 million greater than initially estimated.

Under current law, the Department of Motor Vehicles is authorized to issue refunds to taxpayers that have been required to pay car tax at the higher level and it is estimated that \$1.35 billion will be issued as taxpayer refunds. In addition, to recognize the restoration of the car tax offset, the Administration proposes to appropriate \$2.275 billion for State backfill payments to local governments. This amount includes \$1.8 billion to fund reinstatement of the offset for the remainder of the year, as well as \$475 million to protect local governments from losing more than the original \$825 million that was anticipated as part of the Budget agreement. As can be seen below, the net effect of these actions is to hold local governments harmless:

	(In Millions)
<b>Total Special Session Appropriation</b>	<b>\$2,275</b>
Taxpayer Refunds	\$1,350
<b>Total Car Tax Offset Costs</b>	<b>\$3,625</b>

## Effect of Car Tax Offset on Local Government (In Millions)

	<u>Budget Agreement</u>	<u>November Special Session</u>	<u>Change</u>
"Gap" Loss to Local Governments	-\$825	-\$1,300 <sup>1/</sup>	-\$475
Payments from the State for Additional "Gap" Loss	\$0	\$475	\$475
Payments from Taxpayers Oct. thru Jan.	\$1,350	\$1,350 <sup>2/</sup>	\$0
Payments from Taxpayers Feb. thru June	\$1,800	\$0	-\$1,800
Payments from the State Feb. thru June	\$0	\$1,800	\$1,800
<b>Change in Local Revenue</b>			<b>\$0</b>

<sup>1/</sup> Based on Department of Motor Vehicle estimates, including over \$1 billion in actual amounts through the end of October, plus additional amounts for remaining payments outstanding.

<sup>2/</sup> This amount was paid by taxpayers while the offset was suspended and will be refunded from the State General Fund.

Note: The total cost of the offset in 2003-04 is modestly higher than earlier estimates due to actual amounts to date and revised cash flow assumptions.

## Car Tax

**Administrative Costs for New Car Tax Refund Program.** In order to provide refunds to taxpayers who paid higher car tax due to suspension of the offset, additional administrative expenses for the Department of Motor Vehicles and the State Controller will be required. These are currently estimated to be \$10.3 million in 2003-04. However, because the actual costs are not precisely determined, the allocation of these funds to the Department of Motor Vehicles will be done by the Department of Finance and will include reimbursement of the State Controller costs.

**Elimination of Car Tax “Poison Pill” Provisions.** On September 24, 2003, the Fourth District Court of Appeal ruled that the State is required to reimburse the County of San Diego \$3,455,754 for costs incurred by the County for its Medically Indigent Adult (MIA) program in excess of State funding. The State has petitioned the State Supreme Court to review the case.

The 1991 realignment statutes, which transferred responsibility for a number of health programs from the State to local governments, were partially funded by revenue from a change in the depreciation schedule for car tax. Under current statutes, this change will terminate if the courts find against the State, resulting in a reduction of approximately \$1.5 billion in revenues going to local governments to fund the realigned programs. In order to preserve this critical program funding, the Administration is proposing a statutory change so that the current depreciation schedule will remain in place, regardless of the outcome of the litigation.

## **Department of Social Services**

### **De-Link CalWORKs Cost-of-Living Adjustment (COLA) from the Car Tax**

Current law requires a CalWORKs grant COLA when there is a reduction in the car tax. Because the car tax was increased for 2003-04, the October 2003 CalWORKs COLA was not provided. However, since the car tax increase is being rescinded, a CalWORKs COLA would be required by law. This COLA could cost the State \$95 million (Temporary Assistance for Needy Families {TANF}/General Fund) in 2003-04 and approximately \$127 million General Fund in 2004-05. Therefore, it is requested that legislation be adopted to de-link the CalWORKs COLA from the car tax in order to prevent payment of a CalWORKs COLA, retroactive to October 2003.